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New York, Oxford University Press, 2017, 288 pp.

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- 1 Contemplating the future of a country as vast and diverse as China has never been an easy task. As former Chinese premier Wen Jiabao famously put it, any small problem multiplied by a population of 1.3 billion can be perceived as a potential threat, while any considerable amount of financial and material resources divided by that population size may ultimately seem quite negligible. Thus it comes as no surprise that there is such a huge divide in opinions on China in general and the Chinese economy in particular among the expert community. The book *Cracking the China Conundrum* by Yukon Huang provides a critical assessment of popular perceptions of China, and by doing so presents the author's views on the recent history of China's reforms and their implications for economic, social, and political development. As a senior fellow with the Asia Program at the Carnegie Endowment and the World Bank's former country director for China, the author is well placed to undertake this type of analysis.



The result is a thought-provoking, timely, and insightful report on the Chinese economy.

- 2 The book starts with the author's observation that extreme variations persist among expert views on China's future—from those advocating the age of China's dominance to critics anticipating complete failure. No other country generates such contrasting views on its economic performance. The author attributes this phenomenon to the lack of an agreed-upon analytical framework. Principles used to analyse company behaviour and the macroeconomic situation in a typical developing country are simply not applicable to China due to the state-driven character of its economy, as well as its huge territory and regional diversity. Thus, China watchers tend to over-simplify their analysis and consequently their conclusions. Ideology and cultural differences also contribute to misunderstandings of China's economic and political development.
- 3 Chapter 2 analyses factors behind the differences in global perceptions of China in different parts of the world. The author provides examples of how China's rapid economic growth and increased intra-Asian trade in the 2000s contributed to more favourable views of the country within Asia, while at the same time China was seen as the culprit behind increased trade deficits in Western countries. This critique led to the popular notion that China's economic growth was unbalanced and full of distortions such as a repressed financial system, undervalued exchange rate, and unfair trade practices. Opinion surveys show that since the mid-2000s, the American public has become increasingly negative toward China. The situation in other countries varies according to their economic linkages with China, historical relationships, and ethnic and cultural ties.
- 4 Chapter 3 traces the origins of China's growth model established by Deng Xiaoping. According to Yukon Huang, the gradual approach to implementing reform became successful because it allowed the central authorities to find ways to overcome vested interests in bureaucracy that otherwise might have blocked the initial changes. As a result, a convenient partnership formed between local authorities and private entrepreneurs. The inefficiencies of central planning were mitigated by introducing the so-called "regionally decentralised competitive system." Under this system, the central authorities motivated local authorities to compete for promotion by reaching growth targets while acting under the competitive pressures of market forces. According to Huang, many problems such as income disparities, debt problems, and property bubbles that are currently discussed in policy debates on the Chinese economy should be seen as the natural by-product of this highly successful growth model rather than as vulnerabilities per se.
- 5 Chapters 4 and 5 examine in greater detail concerns over China's unbalanced growth and debt problems. The author dismisses the notion that China's growth path is unbalanced because of the extremely low ratio of consumption to GDP. According to Yukon Huang, the decline in the share of consumption is mainly attributed to the urbanisation process and the transfer of workers from labour-intensive, rural activities to more capital-intensive, urban activities. In this regard China's growth path follows quite closely patterns seen previously in the initial phases of other successful East Asian economies. Consequently, economic rebalancing (increasing income and consumption shares) can also be expected when China's economy becomes fully urbanised and workers increasingly move into more skilled jobs in the service industries. According to Yukon Huang, consumption should not be artificially

stimulated, but it can be somewhat increased by eliminating important distortions such as the restrictive *hukou* residency policy and the prioritisation of investment over social and environmental expenditures. As far as the debt problem is concerned, financial risks in the Chinese economy are manageable and unlikely to lead to a serious financial crisis.

- 6 Chapter 6 explores the prospects for political liberalisation in China. Starting from Deng Xiaoping's Reform Era, the Chinese leadership has given high priority to economic growth, which is considered as a safeguard for political stability. The prolonged period of rapid economic growth was unexpected by many external observers, because it went against the popular belief that economic growth is incompatible with authoritarian regimes. Yukon Huang argues that Chinese "state-led capitalism" is different because its decentralised character has created incentives for growth and shared benefit among various interest groups. This system has worked quite well until recently. But massive wealth creation has given rise to vested interests that may now be impeding economic development and causing public dissatisfaction and social unrest. Breaking up these vested interests would require some form of political liberalisation to introduce more accountability and transparency into the system. However, the author points out that conditions are not in place for significant political change in the near future. Comparisons with South Korea and Taiwan, which underwent political liberalisation in the past, show that China is still far behind in terms of urbanisation level, the share of the services sector in the economy, and the activism of the middle class. The author also argues that liberalisation will not follow the norms of Western democratic movements, given the lack of Western-based democratic traditions in China and an increasingly adversarial relationship with the United States.
- 7 The next chapters discuss impacts and consequences of China's recent rise for the world. Chapter 7 stresses the rising role of China as the regional hub of the East Asian production network. According to Yukon Huang, it was the emergence of this network (and not a fixed exchange rate or other factors) that led to the rapid expansion of China's trade surplus in the mid-2000s. Chapter 8 summarises the investment relations between China and the United States and European Union. Foreign investment conditions have recently become the major area of concern for Chinese companies and their foreign competitors as well. Both the United States and the European Union have increasingly criticised China for its restrictive investment practices, pressure for technology transfers, and inadequate intellectual property protection. The Chinese side complains of discrimination for being classified as a "nonmarket economy" and of its investment deals being blocked by the US government on the ground of national security concerns. Chapter 9 deals with the geopolitical implications of China's expanding economic might and increasingly assertive foreign policy. The previously prevailing strategy of keeping a low profile in foreign affairs is a thing of the past. China wants to be recognised on par with the United States and advocates a new kind of great power relations. Consequently, diplomatic tensions are rising, as two great powers need time to adjust to the changing reality and to work out new mechanisms for restoring trust and maintaining a mutually beneficial relationship.
- 8 Chapter 10 summarises the main conclusions. According to Yukon Huang, China should be considered an abnormal great power. It is the first great power to be a developing country facing numerous internal challenges (aging population, middle income trap,

environmental issues, etc.). While trying to find its own place in the globalised world, China will continue to develop its own set of economic, political, cultural, and social agendas, defying typical classifications and conventional wisdom.

- 9 Huang's book is a remarkable contribution to the debate on the Chinese economy. As a sceptic and contrarian, the author scrutinises popular beliefs about the Chinese economy and then deconstructs them one by one—thus providing his own interpretation of recent developments. In doing so the author highlights the need to think differently and question principles accepted as dogma or conventional wisdom. Although this kind of approach is not free from criticism, and the author can sometimes seem too optimistic about China, the book is still an indispensable resource for those interested in the phenomenon of the Chinese economic miracle.

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